

Benchmarking for competitive advantage

Introduction

There has been a progressive increase in the topic of benchmarking – but for all that there is still a great deal of ignorance about what it actually is. It has taken its place as a management buzzword along with BPR, TQM, Change, EVA and many others – but its true nature is poorly understood. Some see it as stealing (or ‘borrowing’) ideas; others as a mechanism for comparison with a competitor; whilst others view it as a form of industrial espionage. In fact it is all of these and none of these at the same time, but instead involves understanding strategic gaps; cooperation; hard work; a willingness to question and where necessary to change fundamental precepts (sacred cows) and also - giving.

This paper will address several issues including: what benchmarking is; when it should be used; and the benefits from using it; how to approach a benchmarking initiative; and how to optimise a benchmarking project.

What is benchmarking?

The term benchmark comes from surveying where it was used to denote a notch or mark representing a given altitude and against which other heights could be calibrated or ‘benchmarked’, since when it has come to mean any standard against which something is compared; and some of the leading exponents in business include Xerox and GE. In business terms there are numerous definitions of benchmarking, but essentially it involves learning, sharing information and adopting best practices to bring about step changes in performance. So, at its simplest, benchmarking means:

‘Improving by learning from others – i.e. - benchmarking is simply about making comparisons with other organisations and then learning the lessons that those comparisons throw up’

Another definition is:

‘Benchmarking is the continuous process of measuring products, services and practices against the toughest competitors or those companies recognised as industry leaders (best in class)’

Robert Camp’s definition¹:

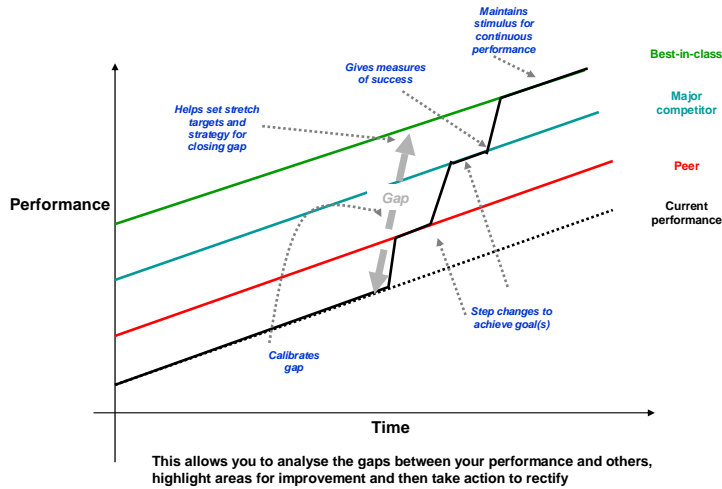
‘A positive, proactive process by which a company examines how another company performs a specific function in order to improve how it performs the same, or similar function. Operational processes must be comparative or analogous if the highest degree of knowledge transfer between benchmarking partners is to be achieved’

Benchmarking allows you to discover the gaps in your performance when compared with someone else. Nothing will happen, however, unless you actually do something to close the gap – or surpass it. The real payback comes from changing what you do to improve your operations – and as we all know change is difficult – actual benchmarking is the easy part!

¹ manager of benchmarking competency at Xerox Corporation

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Benchmarking – Closing the Gap



Once a gap has been identified the key question is: ‘How much of the gap do you wish to close?’ Do you wish to improve a little, a lot or become best-in-class? i.e. what is the benefit from each stage of change and what will it cost? Some areas will need greater effort to change than others but all must be compared to probable benefit/return for that effort (e.g. revenue, cost efficiency or customer satisfaction). It may not be cost effective to go the whole way and in some cases best-in-class may be a step too far! But it may act as a stretch target to which you aspire – or re-visit later.

In practice, benchmarking usually encompasses:

- ✚ regularly comparing aspects of performance (functions or processes) with others;
- ✚ identifying gaps in performance;
- ✚ developing performance improvements to close the gaps thus identified;
- ✚ implementing the improvements;
- ✚ monitoring progress and;
- ✚ reviewing the benefits

The key questions on which successful benchmarking turns are:

- How do **we** do it? and
- How do **they** do it?
 - in other words a comparison of your processes with (a) more successful organisation(s) to establish exactly where the differences lie – and then taking steps to use the knowledge to close the gaps.

What it is not

Although benchmarking involves making comparisons of performance, it is not:

- ✚ just competitor analysis - benchmarking is best when it involves collaboration
- ✚ comparison of league tables - the aim is to learn about the circumstances and processes that underpin superior performance
- ✚ a quick fix, done once for all time - benchmarking projects may extend over a number of months or even years, and it is vital to repeat them periodically so as not to fall behind as the background environment changes
- ✚ catching up - in rapidly changing circumstances, good practices become dated very quickly and anyway you want to gain competitive, or possibly prime mover, advantage
- ✚ copying - the fact that others are doing things differently does not necessarily mean they are better

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🚧 spying or espionage - openness and honesty are vital for successful benchmarking

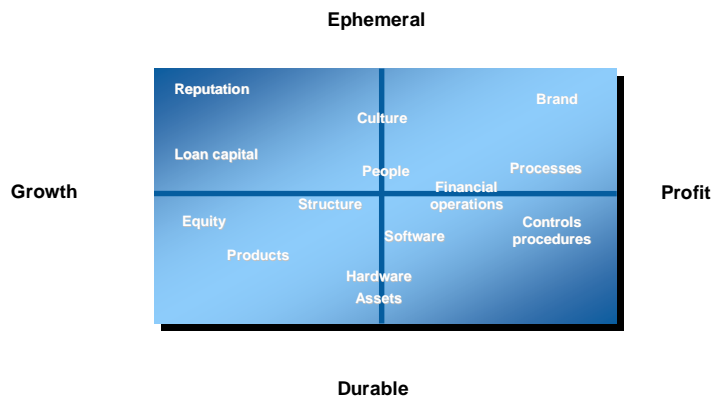
The underlying reason for benchmarking is to learn how to improve your business processes and thereby increase your competitiveness. Organisations choose to benchmark outstanding companies whose business processes are analogous to their own – even if they are in different industries! Benchmarking allows you to identify those practices that have facilitated those successful companies' superior performance and that can be adapted to your own business. Accordingly, benchmarking is an operational process involving continuous learning and adaptation which enables you to improve your organisation's competitive position.

Why benchmark?

Although many organisations initiate benchmarking projects because of some dubious reasons; for practical purposes the only reason to benchmark is because you recognise that somewhere, somehow you are not as efficient or as capable of satisfying your customers as your competition – whether currently or because you have spotted a trend in the market that you need to exploit, follow or respond to.

There are two key drivers for an organisation – profitability and revenue growth (the former being a function of the latter after costs) and there are many variables that impact on these. The key to maximising both is to understand where competitors are better than you – where customers value it. It is of little value having the best process for selling insurance if what customers really want is an easy to use claims process and yours isn't! Similarly it is no good having an extremely slick sales process for commodities if the delivery is poor, patchy and unreliable.

Drivers and contribution to growth/profit



As the diagram shows, processes, although an ephemeral component of an organisation (as opposed to more durable items such as hardware and fixed assets) because they change easily, are critical for profitability as delivery of products/services is crucial to customer satisfaction, payments and ultimately profit. Similarly reputation (ephemeral) is critical to growth but can be lost all too easily – especially if processes/people do not deliver [c/f Arthur Andersen].

Although benchmarking is a measurement process and does generate comparative performance measures, it also about attaining exceptional performance. The practices that lead to exceptional performance are called enablers. Thus the process of benchmarking results in two types of outputs: benchmarks, or measures of superior performance, and enablers. Process enablers are developed to meet a specific business need within the context of a specific business environment and company culture. This is why it is of little value to 'steal' from others because you will not have explored whether and where their business practices are relevant or transferable to yours.

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Types of benchmarking

There are several 'types' of benchmarking including:

- ✚ Generic - e.g. comparisons in a general sense - often using terms such as customer, strategic or operational
- ✚ Functional - e.g. Finance, Sales or HR efficiency (e.g. HR staff to total employees)
- ✚ Process - e.g. insurance claims or delivery of bulk commodities
- ✚ Global - across the world
- ✚ Cost - focussing on cost dynamics
- ✚ Performance - looking at revenue or growth

The problem with more general benchmarking is that you are unable to drill down to the right level of granularity unless you get inside information. Analysts often compare Unilever and Proctor and Gamble but at group levels it is not a fair benchmark as Unilever doesn't sell nappies and Proctor and Gamble doesn't sell ice-cream. Similarly benchmarking LloydsTSB with Barclays at group level misses the subtle nuances of their operations – LloydsTSB for example has a much greater focus on retail banking than Barclays which has extensive corporate business. In order to gain value from benchmarking it is necessary to look at analogous processes – e.g. cashiering in branches. The closer you get to a benchmark then the more value that you will receive – but of course you must also give something in return as a quid quo pro or the other firm will not be interested in giving you access to its workings.

Benchmarking can take place at different levels:

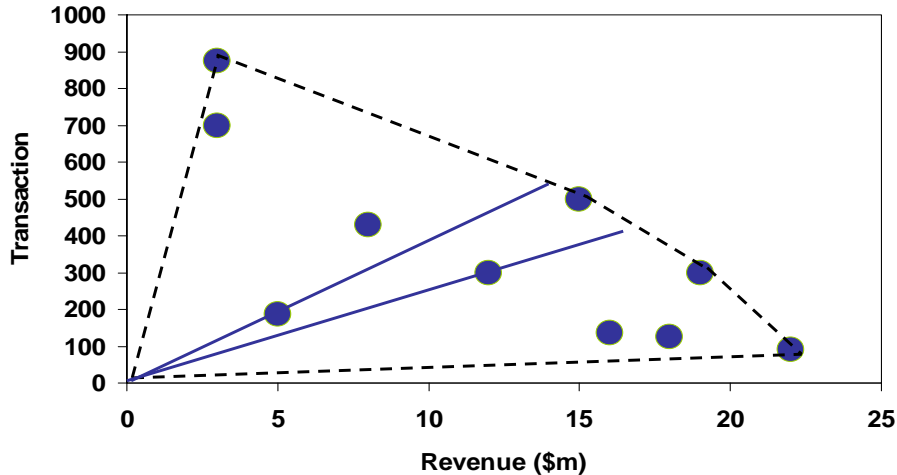
- ✚ Internal
- ✚ Competitor/peer
- ✚ Best in industry
- ✚ World class

and these are explored below.

Internal – is looking at the differing levels of performance within your own organisation and highlighting best practice for dissemination to other parts. For example if an organisation has several factories making the same goods then it can analyse the best performing areas in each and then extrapolate these features to its other operations thus bringing all operations up to the best internal levels of operation. Due regard must be given to the context of the analysis as due to past decisions there will be differences in operations which must be allowed for, such as different IT or logistics systems, local variations in staff competencies or even raw material access, rail links etc such that the comparison is 'normalised'.

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Efficiency frontier normalised to 25 staff



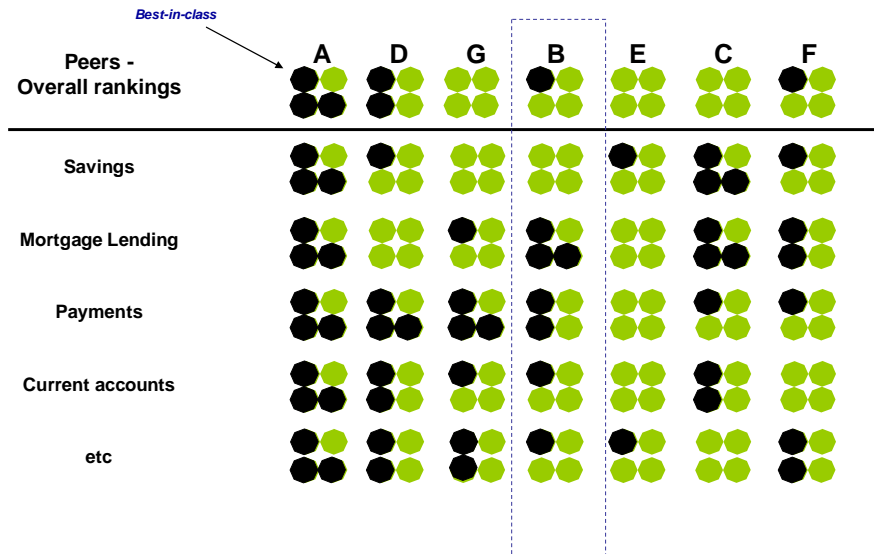
The benefits of internal benchmarking are that it is cost effective, that it is easy to gain access to all the information required, that it does not require you to give anything away to competitors or other outside parties and that the processes will be analogous. The diagram shows an example where an 'efficiency frontier' of several units has been plotted. The boundary maps the most efficient units on two fronts – transactions and revenue. This allows you to identify quickly the poorer performers (those inside the frontier) and where they fall behind. Extrapolating the current position up to the boundary or frontier gives you an idea of the possible gains – assuming it is possible.

The drawbacks of internal benchmarking include that fact that even the very best internal practices may not be adequate in the face of external pressures (e.g. having very competent cashiers is better than not having them but if customers want internet banking it misses the point); that it is only looking internally and may miss the bigger picture; and that it is unlikely that you will find a radical solution internally (but not impossible). It is generally considered a good idea therefore to benchmark externally (possibly as well)

Competitor/peer – is analysing those firms that you regard as competitors or peers. For example a peer group in banking might include Barclays, LloydsTSB, HSBC, RBS, HBOS – but might also include Egg or Smile or Cahoot depending on which facet you wish to explore; whilst looking at say retailing you might include Sainsburys, Tesco, Asda, M&S, Waitrose, Coop and so on but might include organisations such as Amazon or e-bay if looking at on-line retailing. The diagram shows some potential outputs from a peer group of banks.

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Benchmark outputs – example for organisation 'B'



Typically this type of benchmarking is carried out as part of a cooperative study involving a significant number of players – e.g. the major banks; or the global custodians or the major retailers; often with the cooperation and involvement of the ‘trade association’ body which ensures that the study is ‘fair’ and using independent consultants/advisors who retain the level of confidentiality required. Each participant gives information to the study in the knowledge that it will remain confidential to it and only it will know where it lies in the study.

The great advantage of this type of study is that the information so gained can be at a very detailed level of granularity which allows comparison; for example down to activity level. This facilitates identification of those important enablers as well as allowing a greater range of comparisons than with just one. It also allows you to decide what level of excellence you wish to target in your changes – which might not be the leader – especially if the majority of benefits can be gained from going part of the way. As all participants benefit, they will all give the information to enable the study to add real value.

Best in industry – is focussing on the firm that you consider to be the leader in your own field/industry sector and finding out what it is that it does that is so much better than you. This involves getting close to it and learning – but also exchanging information. Also it is likely that others in the industry will also wish to contact it so competition will be intense.

World class – is simply deciding that no matter what industry sector you are in – you wish to compare what you do against the best in the world. Of course the process must still be analogous, but it means that you are looking for a (probably) very stretching target. The issue here is – what can you offer the best-in-class firm to tempt it into helping you – and to make it choose you rather than any of the other firms wishing to benchmark it as well?

Competencies and competition

When operating in a market it is not the competition that is very different from you that matters - in fact your most dangerous competitors are those that are most like you. This is because for most products and services there will be many features in common which give customers a ‘comfort’ factor and allows customers to differentiate between offerings without feeling that they are looking at something so completely different that they will disregard it.

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How organisational competencies metamorphose 1 (Example for retail finance services)



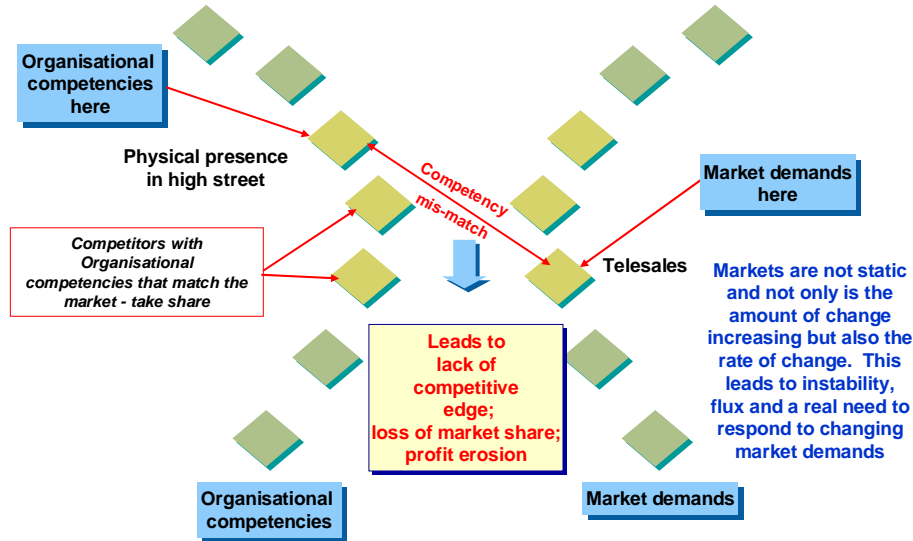
It is, however, the differences between you and your competitors that are the basis of competitive advantage and leads you to offer a distinct customer value proposition that compels customers to use you rather than the competition. To be successful in business you must have some kind of competitive advantage, no matter how small or how subtle.

This allows you to construct a Customer Value Proposition (CVP) which distinguishes you from your competitor's products but which also equalises the price/value trade-off in the customers' mind - in your favour. A superior CVP will exist because your competencies are more in tune with market 'needs and wants' than the competition - otherwise you will lose customers to those competitors that have organisational competencies that are better or more in tune with the customers. It is important to keep abreast of customers' needs and wants which change constantly - as shown in the diagram - and update your competencies accordingly.

Usually insufficient attention is paid to CVPs and organisational competencies - but that is exactly where benchmarking can add value.

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How organisational competencies metamorphose 2 (Example from retail)



In this context competency refers to all aspects of the organisation that are inputs into the CVP (IT, customer handling processes, premises etc) - not just staff skills. This set of competencies is unique to you and is why you have competitive edge. It is not set in tablets of stone, however, and an edge can be dulled or even worn away. To maintain and enhance it you must:

- keep evaluating the needs and wants in the market place and how they will metamorphose;
- understand what your customers' value now and their needs moving forward;
- take a long term time horizon;
- understand competitive movements (current and potential);
- keep a close eye on changes in the substitutes market; and
- put in hand the changes to your own competencies to continue to meet the evolving market needs and therefore sustain your competitive advantage.

This is where benchmarking can be of great value and successful benchmarking, therefore, will involve focussing on key, cross-functional business processes that support the long-term strategic intent and enable you to develop process capability, or focussing on those areas that develop and enhance core competencies.

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Steps in benchmarking

There are five key stages in benchmarking:

1. Proto-planning
 - a. Decide what you wish to benchmark
 - b. Decide against whom you need to benchmark
 - c. Identify outputs required
 - d. Determine data collection methodologies
2. Data collection
 - a. Secondary/background research
 - b. Primary research – from the benchmark
3. Analysis
 - a. Of the gaps
 - b. Of the factors that create the gaps (enablers)
4. Implementation
 - a. Implementation planning
 - b. Roll-out of new modus operandi (changes)
5. Monitoring
 - a. Collecting data
 - b. Evaluating progress
 - c. Iterative change

Proto-planning

Choosing what to benchmark

Before starting a programme you must choose what to compare. It is of little value benchmarking irrelevant processes or activities [e.g. how efficient cleaners or night watch men are] – they should be areas that have the potential to add real sustainable competitive advantage to your business. Those areas that you benchmark should be chosen with reference to key criteria such as:

- ✚ Core to you and your competition
- ✚ Important to you in terms of [some or all of]:
 - ✚ Volume (large number of transactions undertaken)
 - ✚ Cost (high costs - based on time and FTE's)
 - ✚ Value (significant in terms of revenue to you and/or benefit to the customer)
- ✚ Easy to measure and offering comparisons
- ✚ Risk inherent:
 - ✚ Processes that are difficult to control, thus presenting a risk to the business
 - ✚ Processes that vary in performance and impact profits and costs

..so that you can maximise the benefits from improvements. NB - not every process needs to be world class, it is` only those that `will deliver sustainable competitive advantage. Similarly one process should not shine at the expense of the entire system or there will be an efficiency mis-match leading to ineffectiveness.

The company must understand its strategic intent, and identify core competencies, key business processes, and critical success factors. Then the particular process to be benchmarked must be documented and flowcharted, to determine its inherent capability.

Specific activities are:

- ✚ understand business strategic intent
- ✚ identify core competencies, and map company capabilities
- ✚ select the specific process to benchmark.
- ✚ select a benchmarking team leader and participants.

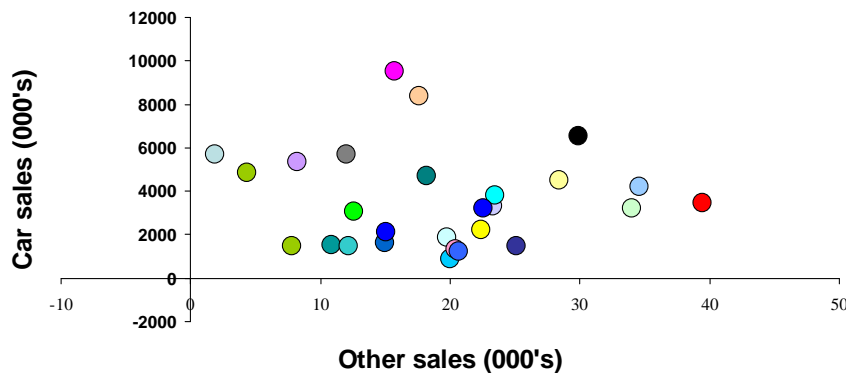
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- ✚ identify the customer profiles and expectations.
- ✚ analyse process flow and performance measures.
- ✚ define process inputs and outputs.
- ✚ document and flow chart the process.
- ✚ identify, understand and measure critical success factors.
- ✚ select critical success factors to benchmark.
- ✚ develop the company selection criteria.
- ✚ establish the data collection method.
- ✚ develop a preliminary questionnaire.

Choosing your benchmark

Having decided what you want to benchmark the next question is: 'against whom will we benchmark?' – the choice of organisation is key and dependent on several factors as discussed above. Requirements must be established for selecting benchmarking partners, given the benchmarking objective, or for characterising the degree of relevance that any particular company may have as a potential benchmarking partner. At this stage you need to decide if it will be a one : one exercise or a peer group.

Branch comparisons - car sales vs other sales - normalised to 4.7 FTE's (average)



Deciding on outputs

Before collecting data it is vital that you decide on the format of the outputs. This will in turn shape both how you collect the data and the method you use for analysis. This should lead to developing benchmark metrics for use during the project.

Defining the data collection methods

This will be driven by:

- ✚ the outputs required
- ✚ the form of the information
- ✚ the nature of the exercise (group versus one : one)

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- ✚ time
- ✚ process to be benchmarked

Data collection

Data collection is based on 'secondary research – public background – and primary research – directly from benchmarks

Secondary - it is important to learn as much as possible before making any direct contact and this can be accomplished using 'desk research including publications and websites etc. This enables you to get a picture of the firm(s) that you might wish to benchmark and an understanding of what you can bring to them. From this you can develop a shortlist.

Primary - direct data collection from the benchmark. If this is a one to one exercise then it will involve staff 'living' with the organisation to understand what it does and how; if it is part of a larger exercise say of peers/competitors then it will be a formal data collection programme in which you will participate. This will involve:

- ✚ planning the data collection
- ✚ developing an interview guide/questionnaire
- ✚ conducting primary research (telephone survey, mail survey, or individual interviews);
- ✚ monitoring process performance and analyse performance gaps;
- ✚ making on-site observations to clarify and verify previous observations;
- ✚ conducting a post-site-visit debriefing with team members, to record observations;
- ✚ preparation of a report

Analysis

The analysis consists of two aspects:

- ✚ determining the magnitude of the performance gaps between you and the other companies, using the benchmarking metrics identified during the proto-planning step
- ✚ identifying the process enablers that facilitated the performance improvements at the leading companies

The analysis step in the benchmarking process model consists of five phases:

1. data analysis
2. data presentation
3. root cause analysis
4. results projection
5. enabler identification

The goal of this step is to identify adaptable process enablers for implementation

The specific activities are:

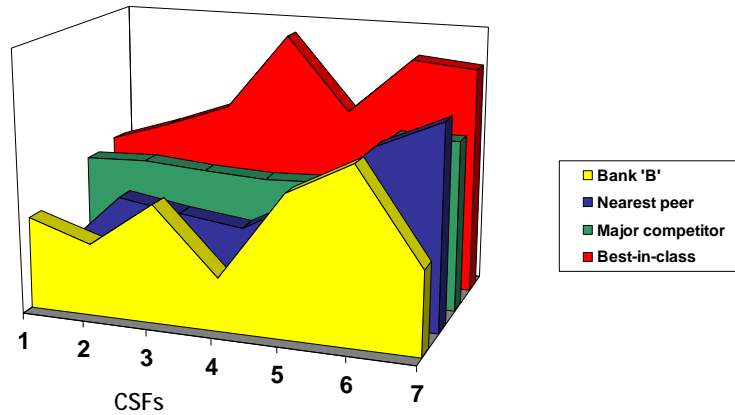
- ✚ organise and graphically present the data for identification of performance gaps
- ✚ normalise performance to a common measurement base
- ✚ compare current performance against the benchmark
- ✚ identify performance gaps and determine the root causes
- ✚ project the performance 3 to 5 years into the future
- ✚ develop scenarios case studies for discussion
- ✚ isolate process enablers that correlate to process improvements
- ✚ evaluate the nature of the process enablers to determine their relevance to your organisation

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A typical comparison is shown below:

illustrative data

Gap analysis comparison



Implementation

The objective of this phase is to make the changes to your processes to improve performance and this involves, implementation planning – i.e. developing the how of the change; rolling out the new methods etc and finalising measures for excellence. The main activities are:

- ✚ set goals to close, meet, and then exceed the performance gap
- ✚ select best practices and enablers for consideration
- ✚ modify process enablers to match the company culture and organisational structure
- ✚ enhance these enablers based on team observations for integrating process improvements
- ✚ develop a formal action plan for implementing improvements
- ✚ obtain management buy-in and ownership of the required changes
- ✚ commit resources
- ✚ implement the plan – piloting where sensible
- ✚ iterate changes based on pilot
- ✚ roll-out elsewhere as appropriate

Monitoring

This is about ensuring that the new processes work and that any 'edge' created is sustained, and involves collecting data on the new process, evaluating progress and if necessary, iterating changes, monitoring and reporting improvement progress, identifying opportunities for future benchmarking and recalibrating the measure regularly.

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Conclusion

Benchmarking is more than just a comparative analysis – this sort of analysis has been undertaken for many years with little benefits. What benchmarking contributes is that ‘lessons are learned’. The difference with a benchmarking study is that a better way of doing things is analysed and then the key factors – the enablers - are then used to close the gap. NB techniques and enablers that were critical in recent past will not remain the same so the processes should be revisited periodically to see if they are still extant and if not to find out what needs to be done. There are a few key issues for organisations beginning benchmarking efforts:

- ✚ top management commitment and participation are necessary
- ✚ sufficient time must be allowed for the project as it takes time
- ✚ an able, well-trained team is critical - where appropriate get outside help (consultants)
- ✚ it is heavy on resources: people, travel, research, consultants, and other factors are involved
- ✚ process rigour is an absolute sine qua non for success - you cannot ‘graze the surface’
- ✚ quantitative data is often difficult and time consuming to obtain

In addition there are some principles that have evolved over time which form a framework to such studies:

- ✚ legality - you must be open and honest
- ✚ exchange - a quid pro quo
- ✚ confidentiality - it remains between you and the benchmark
- ✚ use - only for the purpose agreed
- ✚ preparation - is essential to succeed
- ✚ completion - of all tasks and implementation must be carried out
- ✚ understanding - of your processes, gaps, enablers [and their relevance to you] and the action to close the gap are key to success

Successful benchmarking requires three basic ingredients: a real problem with management willing to solve it; access to benchmarking partners who have previously resolved that problem; a knowledgeable benchmarking team with the ability to use quality tools and research practices to investigate process problems to their root cause. In most cases it is advisable to use external consultants who bring expertise and experience and can help you carry out a benchmarking exercise avoiding pitfalls and maximising return from effort.

~ Neil Jones ~